

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**INVESTMENT COMMITTEE MEETING**  
**MINUTES OF JANUARY 3, 2008**

1. **Call to Order**

Chairman Sarah Peck called the meeting to order at 2:35 p.m. in Room 203-R of the Milwaukee County Courthouse, 901 N. 9<sup>th</sup> St., Milwaukee, Wisconsin 53233.

2. **Roll Call**

**Members Present:**

Sarah Peck, Chairman  
Dean Roepke  
Linda Bedford

**Others Present:**

Mark Grady, Principal Assistant Corporation Counsel  
David Arena, Director of Employee Benefits, DAS  
Gerry Schroeder, ERS Interim Manager  
Kristin Finney-Cooke, Mercer Investment Consulting Inc. (by phone)  
Patrick Silvestri, Mercer Investment Consulting Inc. (by phone)

3. **Mid-cap value managers to replace Hotchkis and Wiley**

The Committee reviewed and discussed the detailed report prepared by Mercer regarding the four firms recommended by Mercer at the last committee meeting: Ark Asset, Artisan, Barrow, Hanley, Mewhinney & Strauff (BHMS) and Wedge. All four are A or A- rated managers.

Ms. Finney-Cooke stated that Mercer was comfortable with the size of the strategy for all four firms. ERS would not be a majority of any the firm's strategies and none of them was too large to be illiquid; that is, over \$8 – 9 billion. She stated that all are listed as fundamental style managers, but that Ark and Wedge use some quantitative models in their process. Mercer believes that Wedge's process provides them with a competitive advantage. She also noted that the overall ERS fund has primarily fundamental style managers (where not indexed) and therefore a manager with some quantitative process provides some helpful diversification in style. She noted that Wedge is a little more concentrated than the others, but that

Mercer did not believe it was too concentrated to create problems similar to those of Ariel, in a different strategy.

She noted that Artisan takes more sector bets and thus will not track the benchmark of the Russell Mid-Cap Value Index. Mr. Silvestri noted that Artisan's appearance of taking sector bets is actually a function of its stock selection and not a top-down macro analysis. He also noted that Artisan uses the Russell Mid-Cap Core Index as its internal benchmark.

Ms. Finney-Cooke noted that Wedge had less risk in its strategy than Artisan, but lower long-term performance than Artisan.

She stated that the fees were comparable given the \$28 million size of ERS's intended investment, with only a \$30,000.00 difference from the highest to the lowest. She stated that the difference in fees was not significant enough to be a determinative factor given the overall size of the ERS fund and the performance expected, with the possible exception (unknown at present) that Artisan might provide a fee reduction for handling a second strategy within the ERS fund.

Ms. Finney-Cooke and Mr. Silvestri stated that Artisan and Wedge were the two firms that Mercer would recommend for further due diligence. The recommendation was based on their consistency of performance over time and their tracking error in conjunction with their reward-to-risk ratio; that is, where they were obtaining that performance. Both firms have outperformed the others over time with less risk. Over a five year period, Artisan has outperformed the others and the benchmark with less risk while Wedge has had a slightly lower out-performance, but with even less risk. Artisan has beat its benchmark every quarter over that period and has been in the top quartile during 70% of the quarters.

In response to questions from Ms. Peck and Mr. Roepke, Mercer stated it believes that active management is appropriate for this allocation and will result in excess return after fees in comparison to index funds.

In response to comments from Ms. Bedford, the committee discussed the fact that Artisan is a locally headquartered firm (although this strategy is managed in Atlanta) and whether that fact merited consideration.

The committee concluded by unanimously agreeing to recommend to the Pension Board that further due diligence be done only on Artisan and Wedge.

4. **Securities Lending practices**

As the Committee had requested, Mercer did provide recommendations for changes to the RFP for custodial services that were incorporated in the final draft that has been issued.

5. **Adjournment.**

The meeting was adjourned at 3:45 p.m.

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Submitted by Mark A. Grady